

**EXECUTIVE SECRETARY
ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	C/S		X		
18	NIO/ECON		X		
19	D/PERS		X		
20	D/OGI	X			
21					
22					

SUSPENSE

Date

Remarks

Executive Secretary
8 July 1986

Date

3637 (10-81)

**THE WHITE HOUSE
WASHINGTON**

3040X

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 7/7/86 **Number:** 317, 146 **Due By:** -----

Subject: Economic Policy Council Meeting - July 9

9:00 A.M. Roosevelt Room

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	☐	☐	CEA	☒	☐
Vice President	☒	☐	CEQ	☐	☐
State	☒	☐	OSTP	☐	☐
Treasury	☒	☐	_____	☐	☐
Defense	☒	☐	_____	☐	☐
Justice	☐	☐	_____	☐	☐
Interior	☐	☐	_____	☐	☐
Agriculture	☒	☐			
Commerce	☒	☐	Poindexter	☒	☐
Labor	☒	☐	Svahn	☒	☐
HHS	☐	☐	Chew (For WH Staffing)	☒	☐
HUD	☐	☐	_____	☐	☐
Transportation	☒	☐	_____	☐	☐
Energy	☒	☐	_____	☐	☐
Education	☒	☐	_____	☐	☐
Chief of Staff	☒	☐	_____	☐	☐
OMB	☒	☐	_____	☐	☐
<u>CIA</u>	☒	☐			
UN	☐	☐	Executive Secretary for:		
USTR	☒	☐	DPC	☐	☒
EPA	☐	☐	EPC	☒	☐
GSA	☐	☐	_____	☐	☐
NASA	☐	☐	_____	☐	☐
OPM	☐	☐	_____	☐	☐
SBA	☐	☐	_____	☐	☐
VA	☐	☐	_____	☐	☐

REMARKS:

The Economic Policy Council will meet on Wednesday, July 9, 1986 at 9:00 A.M. in the Roosevelt Room.

The agenda and background papers are attached.

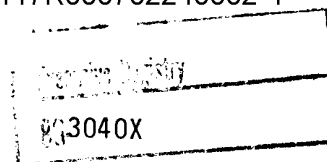
RETURN TO:

☒ **Alfred H. Kingon**
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ **Don Clarey**
☐ **Rick Davis**
☐ **Ed Stucky**

Associate Director
Office of Cabinet Affairs
456-2800 (Room 235, OE08)

THE WHITE HOUSE
WASHINGTON



July 7, 1986

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER *EM*
SUBJECT: Agenda and Papers for the July 9 Meeting

The agenda and one of the papers for the July 9 meeting of the Economic Policy Council are attached. The meeting is scheduled for 9:00 a.m. in the Roosevelt Room.

The first agenda item will be agricultural exports. A paper outlining several options for increasing U.S. agricultural exports will be distributed tomorrow.

The second agenda item will be the Service Contract Act. There are several proposals in Congress to raise the threshold for coverage of the Service Contract Act from the current \$25,000. A paper prepared by the Working Group on the Service Contract Act, which outlines several options for an Administration position, is attached.

Attachment

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 9, 1986

9:00 a.m.

Roosevelt Room

AGENDA

1. Agricultural Exports
2. Service Contract Act

U.S. Department of Labor

Assistant Secretary for Policy
Washington, D.C. 20210

JL 7 1986



MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE WORKING GROUP ON THE SERVICE CONTRACT ACT

SUBJECT: Changes in the Service Contract Act (SCA)

Issue:

What should be the Administration's position on legislative changes to the Service Contract Act (SCA), especially the coverage threshold?

Background:

The SCA, enacted in 1965 and amended in 1972, requires that workers on Federal Service Contracts of \$2,500 or more be paid at least the locally prevailing wages and fringe benefits as determined by the Secretary of Labor. The statute was designed to cover nearly all federal contracts not covered by the two 1930's laws covering manufacturing (Walsh-Healey) and construction (Davis-Bacon). In late 1985, the CBO estimated that the annual dollar volume of SCA covered contracts was \$11.7 billion. The Office of Federal Procurement Policy (OFPP) estimates that about 60,000 new contracts are covered annually.

In 1984, the Grace Commission recommended repeal of the SCA or, if that was not deemed feasible, an increase in the coverage threshold (in one part to \$100,000 and in another part of the report to \$25,000). The GAO's 1984 review of these reports concurred in the recommendations, favoring repeal. The only Administration position on the SCA is contained in an OFPP Bill (S. 2392) which would provide for an 18-month test of raising the coverage threshold to \$25,000 as part of a broader effort to simplify the procurement process. The President did not address the SCA when he decided in favor of supporting increases in the Davis-Bacon threshold to \$1 million for military construction contracts and \$100,000 for all other construction contracts.

While the SCA has been less well studied than Davis-Bacon, it appears, based on some preliminary estimates, that changing the SCA thresholds to the same levels the President supports for Davis-Bacon (DBRA) would have about the same effect.

<u>Threshold</u>	<u>% of Contracts Exempted</u>		<u>% of Dollar Volume Exempted</u>	
	<u>SCA</u>	<u>DBRA</u>	<u>SCA</u>	<u>DBRA</u>
\$ 100,000	66.5	73.9	6.9	9.6
1,000,000	94.6	96.1	28.5	18.1
Repeal	100.0	100.0	100.0	100.0

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In its 1983 study, GAO concluded that application of SCA wage determinations increased total contract costs by between 9.9 and 11.6 percent. Reducing this range by 2.1 percent to reflect savings resulting from DOL's revised regulations for SCA (which are described below) and applying the result to the percent and value of contracts that would be exempted yields the following government-wide annual estimates of potential savings:

Threshold	% of Dollar Volume Exempted	\$ Value of Contracts Exempted	Savings
\$ 100,000	6.9	\$ 0.807B	\$ 63 - 77M
200,000	16.9	1.777B	139 - 169M
1,000,000	28.5	3.335B	260 - 317M
Repeal	100.0	11.700B	913-1,112M

For DOD only, the \$1 million threshold would exempt \$1.9 billion in contracts with estimated savings of \$148-180 million.

One major difference between SCA and DBRA is that the DBRA covers skilled construction workers at relatively high wage levels while the SCA covers a wide range of services and occupations. Some of these are skilled (e.g., aircraft mechanics) but many others are unskilled, low-wage employees. Preliminary data (1986) indicate that 46 percent of SCA covered employees are in such low skill jobs as janitor, cleaner, food service worker and guard. While the wage rates for these workers vary greatly, most are at or below \$6.00 an hour compared to average construction wages of about \$12.40 an hour.

Because there are a large number of different occupations and industries covered by the SCA, a large number of different unions would be affected by any major change in the Act.

Current Status

New regulations under the SCA were issued (effective January, 1984) as part of the Administration's regulatory reform efforts. As the GAO noted, these met some of the Grace Commission's criticisms (e.g., exempting most ADP and high technology maintenance, limiting the successorship provisions which require new contractors to continue payment of established wage rates). The regulatory impact analysis (1983) of these regulations estimated the savings at \$124 million.

The following significant legislative proposals are pending in the Senate.

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- o S. 2261 (Humphrey) would raise the coverage threshold to \$200,000, require that wage determinations only be issued if there are more than 25 employees, and make other major changes.
- o S. 2459 (Gramm/Humphrey) would effectively make all the S. 2261 changes apply immediately to military SCA contracts except that the threshold would be \$1 million. (The Armed Services Committee has reported its bill which would raise the SCA threshold to \$1 million for DOD. However, in a surprise, Senator Quayle offered an amendment which reduced the increase in the Davis-Bacon threshold to \$250,000 despite the Administration's support for \$1 million. Senator Gramm has now indicated that he will not try to raise this to \$1 million when the Bill comes to the Senate floor.)
- o S. 2392 is OFPP's proposed bill to test a \$25,000 threshold under several procurement laws as a method of simplifying the procurement process.

Options

1. Maintain the status quo and continue to seek the proposed OFPP procurement test of raising the threshold to \$25,000 for selected projects. The test could be expanded to a higher threshold (e.g., \$100,000) and/or to deal with other ideas such as only issuing wage determinations for jobs under some fixed maximum (e.g., \$10 an hour).

Pros:

- o The increased threshold would be justified as only a temporary test and should be easier to enact.
- o The results could give a better indication of what changes are really needed.
- o It should greatly lessen the dispute with labor.

Cons:

- o The Administration would lose an opportunity to gain savings through legislative change of the SCA.
- o The proposed test would only be applied to selected contracts and not across the board.
- o It would be perceived as being inconsistent with the President's decision on Davis-Bacon.

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2. Seek increases in the SCA threshold to the same levels approved by the President for the Davis-Bacon Act. (This would be \$1 million for DOD and \$100,000 for other SCA contracts.)

Pros:

- o Significant budget savings would result from increased competition and lower wages (\$63-77 million at a threshold of \$100,000 and \$148-180 million for the \$1 million threshold for DOD).
- o This would be consistent with the President's decision on Davis-Bacon.
- o The SCA threshold has not changed for more than twenty years and some change is appropriate in recognition of economic changes and Gramm-Rudman-Hollings.
- o There is significant support for the DOD part of this option in the Senate; it has been approved by the Armed Services Committee but it is not clear that it can be passed on the floor.
- o Opportunities for contracting out federal programs would be increased, furthering privatization.

Cons:

- o Labor unions would be critical of such increases and may be able to block any such legislation.
- o Rigid threshold goals by the Administration have proven a handicap in negotiating for changes with the Congress.
- o The adverse impact of any decreased wages would be felt primarily by relatively low-wage, unskilled workers.
- o While some increase in the threshold may be possible, the \$1 million threshold would be sure to strengthen opposition, especially in the House.
- o There has been no business community push for legislative change in the SCA.

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3. Seek across the board increases in the threshold to not less than \$100,000. Other changes, such as to add an employee threshold and to exempt small businesses, may also be sought to ensure passage of the threshold change. DOD and NASA are in favor of such other changes.

Pros: Much the same as for Option 2, plus

- o Provides negotiating flexibility with the Congress which should increase chances for actually getting a change enacted both for SCA and Davis-Bacon.
- o The Quayle Amendment to reduce the proposed Davis-Bacon threshold increase to \$250,000 indicates uneasiness with going as high as \$1 million, even though the SCA change to \$1 million was approved by Armed Services.
- o Considering other changes to the SCA may give even more flexibility in negotiating a threshold increase.

Cons: Much the same as for Option 2, plus

- o Gaining, for example, a \$100,000 threshold across the board might not save as much as getting a \$1 million threshold for DOD and no change for other agencies.

4. Seek an increase in the threshold to \$1 million across the board.

Pros: the same as for Options 2 except that the savings would be greater.

Cons: the same as for Options 2 except that opposition would be stronger, passage would be questionable, and efforts to enact changes in the DBRA might be harmed.

5. Seek repeal of the SCA.

Pros:

- o It would result in the greatest amount of savings under current levels of contracting (about \$1 billion annually), would encourage more contracting out, and would reduce agency administrative burdens.
- o It would limit the federal interference in setting labor prices in the marketplace through increased competition, small business participation, and job opportunities plus reduced paperwork burdens.

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- o It would eliminate the problems GAO still feels exist in accurately developing prevailing wage rates.
- o Unlike Davis-Bacon, the President did not take a public position against repeal of the SCA.
- o The Fair Labor Standards Act (FLSA) would provide a measure of wage protection for employees the SCA now covers.

Cons:

- o It stands virtually no chance of enactment, provoking strong labor opposition with little business support.
- o It might increase opposition to changes in the Davis-Bacon by giving currency to the argument that the Administration's Davis-Bacon efforts are merely a first step towards removing all wage protections.
- o If enacted, it could increase pressures for raising the minimum wage since many of the SCA covered workers are relatively low paid and unskilled.